

CITY AND COUNTY OF SAN FRANCISCO



September 14, 2004

Marcie Edwards
Interim CEO
California Independent System Operator
151 Blue Ravine Road
Folsom, CA 95630

Re: Action Plan for San Francisco

Dear Ms. Edwards:

This letter responds to your September 10, 2004 report to the California Independent System Operator (CA ISO) Board of Governors regarding an Action Plan for San Francisco, Options and Risks (the Action Plan). To begin, the City would like to thank the CA ISO and its staff for the dedicated, cooperative and intense effort to produce an historic and specific Action Plan to close down all existing in-City generation. Developing such a plan has been a City and community objective for several years. The City appreciates the substantial effort expended by the CA ISO to work with the City and community to develop this plan.

By providing in writing and in detail the options available to close down existing in-City generation, the CA ISO has created the basis to continue the discussions in a concrete, constructive and responsible manner. The City is anxious to continue to work cooperatively with the CA ISO to further understand and refine the details of the plan and the various available options.

Without in any way detracting from the significant achievement represented by the Action Plan, but rather in the spirit of moving on immediately to the next stage of the discussion, the City offers the following observations:

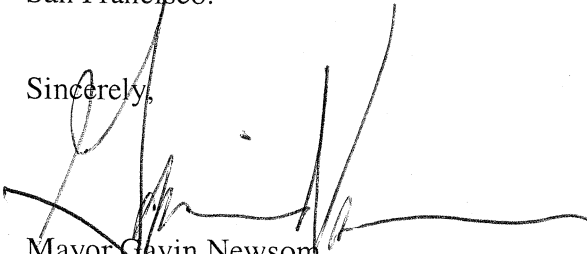
- The City reads the Action Plan to provide for closure of the Hunters Point Power Plant (Units 4 and 1) once Jefferson-Martin and eight previously defined transmission projects are in place, irrespective of the status of the retrofit of Potrero Unit 3. The City considers that the closure of Hunters Point Power Plant and the retrofit of Potrero Unit 3 are in fact separate and distinct objectives that cannot be conditioned the one upon the other. The City would welcome a clarification from the CA ISO that it has correctly interpreted the Action Plan.
- The Action Plan provides that the City's combustion turbine projects would provide for closure of Potrero Units 4, 5, and 6 and support the closure of Potrero Unit 3 with the completion of four additional transmission projects. The City believes that the order must be reversed. For the reasons listed below, the City considers that its proposal to site three combustion turbines in the City and one at the San Francisco International Airport should provide for immediate closure of Potrero Unit 3 and the closure of Units 4, 5, and 6 on completion of the four transmission projects. The Action Plan itself provides that "the retirement of any existing Potrero generation requires an equivalent offset of new transmission and/or generation infrastructure."

(Action Plan at 7.) The City's combustion turbines are not only equivalent to Potrero Unit 3, but are in fact superior. The City's rationale for this conclusion is as follows:

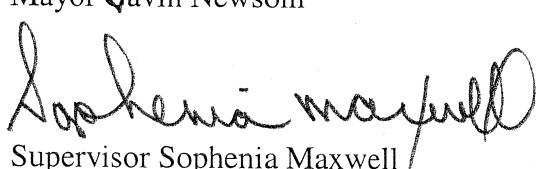
- In terms of MWs, the combustion turbines provide a total of 193 MWs as compared to 207 MWs from Potrero Unit 3. A difference of 14 MWs is insufficient to render the combustion turbines ineligible to replace Potrero Unit 3.
- Comparing capability and the permitted running hours of the City's combustion turbines against the capability and the service hours for Potrero Unit 3 under the Must Run Service Agreement, the combustion turbines represent only 9% less MWhs than Potrero Unit 3. However, unlike Potrero Unit 3, the start time for the combustion turbines is between 10 and 30 minutes. Thus, it is not necessary to run the turbines during low load hours purely to have them available to meet peak load. This flexibility should compensate amply for the 9% reduction in MWhs.
- Potrero Unit 3, an old unit, has had a forced outage rate twice as high as the average outage rate of units in the CA ISO system. In contrast, the City's combustion turbine projects involve new aeroderivative combustion turbine technology that has a very high availability record.
- The City's combustion turbines provide a far more valuable contribution towards meeting planning criteria than does Potrero Unit 3. With Hunters Point Unit 4 closed, Potrero Unit 3 would be the largest single generator in the City/Peninsula and hence becomes the G-1 contingency unit. Thus, to assess compliance with planning criteria, the entire 207 MW of Potrero Unit 3 must be assumed to be off line. In contrast, with Potrero Unit 3 replaced by the City's combustion turbines, a 48 MW combustion turbine becomes the G-1 contingency unit, and to assess compliance with planning criteria, only 48 MWs need be assumed to be offline.

The City looks forward to following up with the CA ISO regarding these considerations. Once again, the City very much appreciates the CA ISO's outstanding cooperation with the City and the community to identify and move forward on a robust, environmentally sound, and economic plan to address critical environmental justice issues through the closure of the existing in-City generation, while maintaining and improving reliability in San Francisco.

Sincerely,



Mayor Gavin Newsom



Supervisor Sopenia Maxwell



City Attorney Dennis Herrera

Marcie Edwards
September 14, 2004
Page 3

cc: Michael Kahn
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